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SUBJECT: GNZ AIMS TO COOL EXPECTATIONS FOR U.S. FTA

REF: A. WELLINGTON 40

[1](#)B. 04 WELLINGTON 217

(U) Classified by Deputy Chief of Mission David R. Burnett.
Reasons: 1.4 (b) and (d).

[1](#)1. (C) Summary: The New Zealand government is preparing the public for the likelihood it will not attain free trade negotiations with the United States any time soon. After six years of pressing its case for such a deal, the Labour-led government has turned its attention to agreements in Asia. The government can be expected to attempt to immunize itself against domestic political criticism that its failure to secure an FTA is the result of Labour's icy relations with Washington. If pushed, Labour will likely trot out any and all rationales for why an FTA is not in the cards to deflect any accusations that it is at fault. End summary.

Into the future

[1](#)2. (C) Trade Minister Goff in a March 15 statement implied that, although New Zealand still desired a free trade agreement (FTA) with the United States, it probably would not get one. Goff pointed to the U.S. strategy of negotiating with larger economies and the limited time before Trade Promotion Authority expires. It is perhaps the first time that the government has shared with the public a realistic appraisal of its chance for FTA talks with Washington. An aide to Goff said the statement reflects the government's recognition that it needs to lower the public's expectations) expectations that the government itself had fed until recently.

[1](#)3. (C) An FTA with the United States had topped the Labour government's foreign policy objectives since it came to power in 1999. But officials from the Ministry of Foreign Affairs and Trade have told post recently that they had accepted the fact that an FTA was not in the works.

Why New Zealand wants a deal

[1](#)4. (U) Studies predict that, under an FTA, New Zealand's merchandise exports to the United States) already New Zealand's second-largest export market) would increase 51 percent. The New Zealand government's competitive envy at seeing Australia sign an FTA with the United States in May 2004 only fueled its desire for a similar pact. Its chief concern was that the U.S.-Australia FTA could draw down New Zealand exports to the United States, as well as draw off U.S. investment in New Zealand.

15. (C) New Zealand,s hopes for improved trade still ride on the success of the Doha Round. (The Uruguay Round pumped an estimated \$6 billion into the New Zealand economy through additional export revenue and tariff savings.) But New Zealand is pursuing a &Plan B8) bilateral and regional trade agreements) should the WTO talks fall apart. It has completed free trade deals with Australia, Singapore and Thailand. It has agreed to a four-way partnership with Brunei, Chile and Singapore, and it is negotiating FTAs with China, Malaysia and the ASEAN countries. New Zealand officials had hoped their pursuit of an FTA with China would stimulate U.S. concern and interest in starting talks with New Zealand on a trade deal (ref B).

16. (C) But the Labour government,s desire for an FTA with the United States is now less a matter of economics and more a matter of domestic politics. The lack of an FTA with the United States makes the New Zealand government politically vulnerable to accusations by opposition parties that it has weakened ties with both Australia and the United States. An FTA would show New Zealanders that Americans are not disaffected by the Labour-led government, which is aware that it &soiled the waters8 since President Bush took office, said an international lawyer and former trade negotiator. Ironically, reaching an FTA with China could call the public,s attention to the government,s failure to achieve a U.S. agreement, as well as raise questions on whether New Zealand's economy would become dangerously dependent on a much larger, undemocratic PRC.

17. (C) Over the last six years, the New Zealand government has diligently recruited allies to its quest for an FTA. It rounded up backing in Congress, with 65 members signing up as "Friends of New Zealand8 supporting free trade talks. (Goff's March 15 statement was in response to a letter written by Senators John McCain and John Sununu encouraging the President to launch FTA negotiations with New Zealand.) It lobbied for and won U.S. business endorsement, partly through the United States-New Zealand Council. John Wood, who recently ended his term as New Zealand ambassador to the United States, even made the FTA the defining goal that would mark his success in Washington (and misled his Prime Minister over the likely odds the United States would agree to negotiations). Many New Zealanders consider the government,s contribution of troops in Afghanistan and engineers in Iraq as part of the outreach aimed at bringing the United States into FTA negotiations.

But it has mixed feelings

18. (C) Insiders say that Prime Minister Clark has appeared sometimes testy in private, expressing exasperation over Washington,s failure to agree to FTA talks. The government is sensitive to being perceived as &begging8 and is aware that it has worn out its welcome with U.S. government officials on this issue, according to Goff,s aide.

19. (C) But there may be another reason for that testiness, said a trade economist who has advised the government on its trade policy. Lurking just under the surface is a "schizophrenia8 that comes from Clark,s innate discomfort with free trade and her preference, as a Labour idealist, for a government-interventionist approach to the economy.

110. (C) Moreover, PM Clark and others in her government worry about the concessions New Zealand might need to make to seal a free-trade deal. Among their concerns is a desire to preserve the government-run system for purchasing pharmaceuticals, according to the economist. Because of that desire, Heather Simpson) the Prime Minister,s chief of staff, close confidante and a former health economist) opposes the FTA talks. The New Zealand government would be hard-pressed to meet likely U.S. demands that it open the drug-purchasing system to greater competition and choice. That would be costly, and health care expenses already are the largest component of the New Zealand budget (ref A).

111. (C) The government also knows that U.S. dairy interests

would defend their turf against New Zealand,s efficient competitors. New Zealand officials acknowledge that they stand to gain more from an FTA than the United States. With very few tariffs, the New Zealand market already is relatively open. Aside from increased access to the drug and telecommunications sectors and possibly a wider ban on parallel imports, the United States has little to gain.

The public,s response

¶12. (C) The New Zealand public accepts as an article of faith that a deal would boost the New Zealand economy. However, after so much talk over so many years, many New Zealanders have become jaded to the prospect, a university business professor said. Most of the domestic pressure for a U.S. FTA comes from a small section of New Zealand business) notably, the dairy cooperative Fonterra. Most of the country,s businesses are small and rely little on exports. In addition, both the horticulture and meat industries are more frightened by the concessions that New Zealand might make than attracted by the benefits they might reap, an industry leader said. Only a muted public response, if any, is expected to the government,s scuttled hopes for an FTA.

¶13. (C) And, even if there were political repercussions, the Labour government can always shift the blame to the United States, the international lawyer said. Goff in his March 15 statement said, &The decision to negotiate an FTA however rests with the US Administration.⁸ The Labour government can blame its anti-nuclear policy and its opposition to the war in Iraq as reasons why the United States will not engage in talks. Such explanations are likely to wash with New Zealand voters, many of whom hold strong anti-nuclear and anti-Iraq war views. (For this reason, EAP A/S Hill's public remarks that the United States will make its FTA decision on economic factors alone were well-timed and very useful.) In any event, the public largely holds the New Zealand government blameless for the lack of FTA negotiations, according to the lawyer. Labour's political opponents also need to tread carefully. The National Party is mindful that it may fare no better in securing an FTA should it win the 2008 election, a former diplomat said.

¶14. (SBU) However, if Australia reaps large gains from its FTA with the United States, public attitudes could change in New Zealand.

Comment

¶15. (C) In the near term, New Zealand government officials will continue to press us in private meetings for an FTA, but in a more low-key way. They also will continue to publicly call for FTA negotiations with the United States while at the same time lowering the public,s expectations. Post believes we should stick with our current response, saying that the possibility of negotiations is not foreclosed. Keeping the option open gives us flexibility should circumstances change and make an FTA in our interest) and deniability should the New Zealand government pin the blame on the United States.
McCormick